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Summary

The October 30 Soviet Note to Finland requesting consultations on joint defense because of the ostensible threat of West German militarism introduced a new and unsettling element in Finnish-Soviet political-economic relations. Although many of the basic factors at work in these relations remain unchanged, an extensive reappraisal may be necessary.

The Soviet Bloc's share of Finland's trade declined relative to Finland's total trade during the first half of 1961, continuing the trend of recent years. (d)

A significant weakness in Finland's trade position vis-a-vis the Soviet Union continues to be the metalworking industry's dependence on Soviet orders, but the current boom has improved the competitiveness of the industry and reduced this dependence somewhat. The problem of balancing Finnish-Soviet trade is for the Finns still one of finding enough goods to purchase from the USSR. No significant changes occurred in the composition of Finnish trade with the Bloc, although bulging wheat stocks necessitated an arrangement with the Soviet Union for re-export of Soviet wheat to Poland and elsewhere. BIEC

The principal development concerning the Ruble credit was the Government's approval of a loan from the credit to the State-controlled Rautaruukki Oy for procurement of Russian blast furnace and other ironmaking equipment.

Until recently, Finland hoped that the Soviet Union would not object to some sort of Finnish association with the EEC if Finland considered this association necessary, but the general feeling since the Soviet Note is pessimistic.

Recent events suggest the possibility of Finland eventually reaching an accord with the Soviets regarding lease of the Soviet-held portion of the Saimaa Canal, despite the lack of economic merit for the plan. (d)

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PART I

The October 30 Soviet Note to Finland invoking the 1948 Treaty of Friendship, Collaboration, and Mutual Assistance between the two countries because of the ostensible threat of West German militarism (see Embtels 182 and 183) introduced a new and unsettling element in Finnish-Soviet relations. Although many of the factors at work in these relations remain as described in D-277 under reference, an extensive reappraisal, therefore, may be necessary depending on the turn of events in the next few weeks or months. The Embassy believes that it would be meaningless to attempt this reappraisal until the current period of acute uncertainty in Finnish-Soviet relations ends.

PART II

The sections of D-277 (Part I) dealing with specific developments such as Finnish-Soviet trade and Finland's relations with EFTA require updating. In the present despatch the Embassy has undertaken to make these sections more timely and has included them below.

Finnish-Soviet Trade

As (B)ED
reported earlier, Finland has endeavored to secure a substantial trade with the Soviet Union as a gesture of goodwill toward its eastern neighbor. I

Finland's natural trading relationships are with the West rather than to the East. The current relatively high level of trade with the Soviet Union only dates from World War II, and has its origins in the terms of Finland's reparations payments, which decreed that 70% consist of ships and machinery. The expansion necessary to produce these items gave rise to high-cost facilities whose continued production after completion of reparations payments depended on Soviet orders. These were forthcoming and were accepted by Finland in order to utilize the productive facilities and technology it had just developed. Since then, Finland has continued to export a sizable share of the production of the shipbuilding and machinery branches to the Soviet Union and these exports have created a need to find counterbalancing imports from the Soviet Union.

It is, of course, also true that many Finnish manufacturers and businessmen value Soviet trade and are not averse to seeing it expanded because of the possibilities of higher sales. Shipbuilders particularly find it advantageous to be able to schedule production several years in advance on the basis of programming orders. BIEB

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BIE B

There is a chronic and occasionally serious problem of finding enough goods to import from the Soviet Union in order to balance sales of Finnish goods there. Most major imports from the USSR, including coal, grains, and other basic commodities (with the possible exception of oil) could be obtained on better terms elsewhere, but are purchased from the Soviet Union in order to utilize the rubles which Finland receives from the sale of products which Finland probably could sell nowhere else but in the Soviet Union. [

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(c)

These remarks apply mainly to Finnish trade with the Soviet Union, and not to trade with the rest of the bloc. Finland's trade with these satellites is not subject to any particular political pressure for continuation. It is worth noting that trade with the satellites has, at times, suffered from efforts to maintain trade with the USSR. [

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The main interest of the USSR is to protect and enhance its predominant position here; there appears to be no concern on the part of the Soviets that their sales efforts occasionally operate to the detriment of satellite sales here (for example, oil from Rumania and coal from Poland).

Cars pose a special problem. The Soviets regard their passenger vehicles as a prestige item and have consistently pressed for higher quotas for Finnish purchases of these cars. Since the Finns have acquiesced in the Soviet interpretation of their trade agreement as a solemn commitment to import (or export) specific amounts and commodities, these increased quotas have led inevitably to greater Finnish imports of Soviet vehicles. The Finnish Government has been forced to control automobile imports from the West severely in order to preserve a market here for these (and, incidentally, other Soviet Bloc) cars, which would be virtually unsalable here in a completely free market (with the possible exception of the Czech-produced Skoda). Bloc-produced vehicles have sold fairly well in Finland in the last two years, due mainly to the Finnish boom, which has raised demand for automobiles to a point far beyond the quotas for western vehicles, and due partly to the introduction by Soviet car dealers of better service facilities and sales on credit. Western cars are still sold on a strictly cash basis, with long waiting lists for import licenses for many makes.

Finland's trade with the Soviet Bloc for the first six months of 1961 has declined somewhat from the same period of last year, and has continued to drop in relation to total trade, which is booming. Exports to the Bloc, which in 1957 accounted for 29.4% of total exports, slipped to 24.9% in 1958, 23.5% in 1959, and 19.5% in 1960. During the first six months of this year, exports to the Bloc constituted only 16.6% of Finland's total exports.

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Finland's exports to its principal trading partner, the USSR, have followed a similar pattern. In 1957, the USSR took 20% of Finland's exports. During the next three years this figure dropped steadily, and 1960 exports to the Soviet Union constituted only 14.2% of total exports. During the first six months of 1961, the Soviet Union took only 10.5% of total Finnish exports. This figure is somewhat artificial because of the absence of ship deliveries during the early months of this year and will undoubtedly rise as the result of later deliveries, particularly of the large icebreaker "Leningrad" on October 30.

Finnish imports from the Soviet Union and the satellites consists primarily of grain, sugar, fodder, fertilizers, mineral fuels, raw materials, and motor vehicles. As has been the case with exports, Finnish imports from the Bloc have fallen steadily in recent years relative to total imports. The Bloc supplied 30.6% of Finnish imports in 1957, 25.7% in 1958, 24.8% in 1959, 20.6% in 1960, and 19.5% in the first six months of 1961. The share of the Soviet Union in Finnish imports has declined from 17.7% in 1957 to 13.8% in the first half of 1961.

Some idea of overall trends in Finland's trade with individual members of the Bloc may be derived from Finland's quarterly clearing account balances with these countries. These balances were last reported in Despatch No. 199 of November 6, 1961.

Negotiations between Finland and the Soviet Union on trade during 1962 began in Helsinki October 26. Minister Olavi MUNKKI, the senior Foreign Office official responsible for economic affairs, again is heading the Finnish delegation. These talks were recessed until November 4, to permit the Soviet delegation to return to the USSR for national day celebrations and will be resumed in Moscow on November 20.

One serious impediment to Finnish-Soviet trade in 1962 was removed by an agreement signed September 29 between the Finnish State Grain Stores Organization and the Polish authorities providing for the sale of 150,000 tons of Russian wheat to Poland. Finland's wheat crop achieved record levels in 1960, and the 1961 harvest left Finland with bulging inventories. Consequently, the Finns would have been hard-pressed to absorb the 145,000 tons of wheat they were obliged to take under the terms of the 1961 Finnish-Soviet trade agreement. Of the 150,000 tons of Russian wheat sold to Poland, 60,000 tons were credited to Finland's 1961 purchase commitment to the Soviet Union, with the remaining 90,000 tons applied against the as yet undetermined 1962 quota.

Prior to agreeing to this resale, the Soviets had granted the Finns permission to resell about 30,000 tons of wheat, which they had purchased earlier the year from the USSR, to western European countries, principally Spain and Portugal.

The wheat deal with Poland aroused considerable speculation in Helsinki as to the Soviets' motive in permitting Finland to sell the wheat to Poland rather than selling it directly. The most plausible explanation is that the Soviets realized that unless some method were found to enable Finland to dispose of the wheat,

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it would have been necessary for Finland to reduce drastically or completely cancel 1962 wheat purchases programmed under the long-term trade agreement. In view of the difficulty Finland traditionally has in finding commodities to purchase from the Soviets, such a development combined with Soviet insistence on balance in trade would likely have meant a reduction in Finnish exports to the USSR. (SIED)

The most important organizations in Finland dealing with promotion of Soviet and Soviet bloc trade continue to be the Import Trade Fund, the Finnish-Soviet Chamber of Commerce, the Finnish-Czechoslovakian Chamber of Commerce, and the firm Suneva. No changes have been reported in the activities of the first three.

As mentioned in Despatch No. 277, Suneva is owned by several large Finnish marketing organizations (e.g. Kesko, OTK and SOK) and manufacturing firms (Valio, Asko, Tuko). Its purpose is to promote Finnish-Soviet trade in consumer goods and thereby broaden the base of this trade. The Managing Director of Suneva, Mr. Rolf Bister, told the Embassy that his firm has been very active during the past year since its establishment and had succeeded somewhat in expanding Finland's imports of Soviet consumer products. He mentioned specifically canned goods such as crab meat and caviar. Other products such as toys and pens have not sold well, he said, due partly to low quality and poor appearance, and partly to non-competitive prices. He claimed that the Soviets had recently agreed to provide a small sum for advertising in Finland to promote sales of Russian alcoholic beverages here and interpreted this as an encouraging sign that Soviet trade officials are beginning to appreciate the necessity of advertising. On the export side, he said, there is considerable interest in selling products to the Soviets. A representative of Lenfintorg, a Soviet organization established about a year ago to handle trade between Finland and Leningrad, recently visited Finland and toured factories producing consumer goods with a view to selecting items for future purchase.

Following the precedent established in 1960, the Finnish and Soviet Governments signed a supplementary protocol for 1961 on September 29. The protocol itself is of minor importance, providing only for about 3-4% more trade in 1961 than that called for under the terms of the annual agreement. Its significance lies in the fact that both the Soviet Union and the Finnish Government look upon the level of trade between their countries as an indication of the status of good relations. Thus it may be expected that the Finns will continue to exert themselves to ensure that the level of trade with the Soviets does not decline unduly with respect to total Finnish trade.

Soviet Credits

Credits and grants have played a minor role in Soviet economic policy vis-a-vis Finland. The only current Soviet credit is the 500 million old ruble (approximately 112.5 million new rubles, Fmk. 40 billion, or \$125 million) credit agreed to between the Government of Finland and the Soviet Union in December,

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1959. The Finns have continued to use this credit cautiously, and as of the end of September this year, only 14.5 million new rubles of the credit had been disbursed (for imports of military equipment for the armed forces and steel rails for the State Railways).

On October 19, the Government approved use of a portion of the credit by Rautaruukki Oy, the State-controlled iron and steel company. Rautaruukki Oy is to receive a 8,350,000 new Ruble loan, repayable in twelve years and bearing an interest rate of 2 3/4 percent annually. The loan is to be used for the purchase and installation of a blast furnace, sintering plant, and gas purification equipment. It is still uncertain whether the Finns will order the steel-converting equipment and the rolling mill from the Soviets. The Rautaruukki management has insisted that they have the final say as to the source of equipment purchased by the company, and have informed the Embassy that they procured the pig-iron making equipment from the USSR because they believed Soviet blast furnace technology and facilities to be equal in quality to that of the West.

In addition to the Rautaruukki credit, a small loan (Fmk. 17 million, or about \$53,000) under the terms of the Soviet credit was approved earlier by the Government for Imatran Voima for purchase of peat-excavating and processing machinery. The State-controlled Imatran Voima, Finland's principal power-distributing company, is planning to use the machines in connection with its projected peat-fueled power station in Ostrobothnia.

Finland, EFTA and the EEC

The Finns had time only to cease congratulating themselves on the success of its diplomatic efforts in associating with EFTA when they were jolted by reports from London that the U.K. had decided to reverse its long-standing policy and seek membership in the EEC. It was clear to them that successful negotiations on the part of the U.K. would, in effect, mean the demise of EFTA.

In response to this new development, the Finns have adopted a "wait and see" attitude.

In contrast to the period prior to Finland's decision to associate with EFTA, there appears to be much wider acceptance in both governmental and private circles of the economic need to associate with the EEC. It is clear, however, that any such association on the part of Finland presupposes prior association by Sweden. Sweden is Finland's principal competitor in western European markets for pulp, paper, and lumber and Finland would not feel under economic pressure to join the EEC should Sweden elect to remain outside the grouping.

The October 30 Soviet note, of course, might well make the entire question of the economic desirability of association with the EEC an academic one for

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the Finns.

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Saimaa Canal

Of potential Finnish vulnerability vis-a-vis the Soviet Union is the Saimaa Canal. The Finns requested last year that the Soviet Union consider the possibility of leasing the Soviet-held portion of this canal to Finland for fifty years.

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Recent events suggest that this estimate requires revision, however, and that in certain quarters there is genuine interest in reaching agreement with the Soviets regarding the Saimaa (A-57, September 30, 1961; D-160, October 6, 1961). A delegation headed by Minister of Communications and Public Works, Kauno Kleemola, was appointed August 5 by President KEKKONEN to discuss with the Soviets the possibilities of leasing the canal. The first phase of these talks took place September 19-27 in Moscow. The Government has not officially released information on the decisions or exchanges of views which took place at the meeting, but upon his return from Moscow Minister Kleemola "guessed" that some sort of agreement might be reached "before year end". He said, however, that he thought the talks might take some time because the Soviet Union had no precedent for the type of rental agreement which is contemplated. The Finnish delegation is now gathering additional information for the second phase of the negotiations, which are expected to be resumed in November. In January of this year an expert committee had inspected the canal and made detailed estimates regarding the costs of rehabilitating the canal. These estimates have not been made public, but informed sources place them at Fmks. 14,370,000,000 (\$44.9 million).

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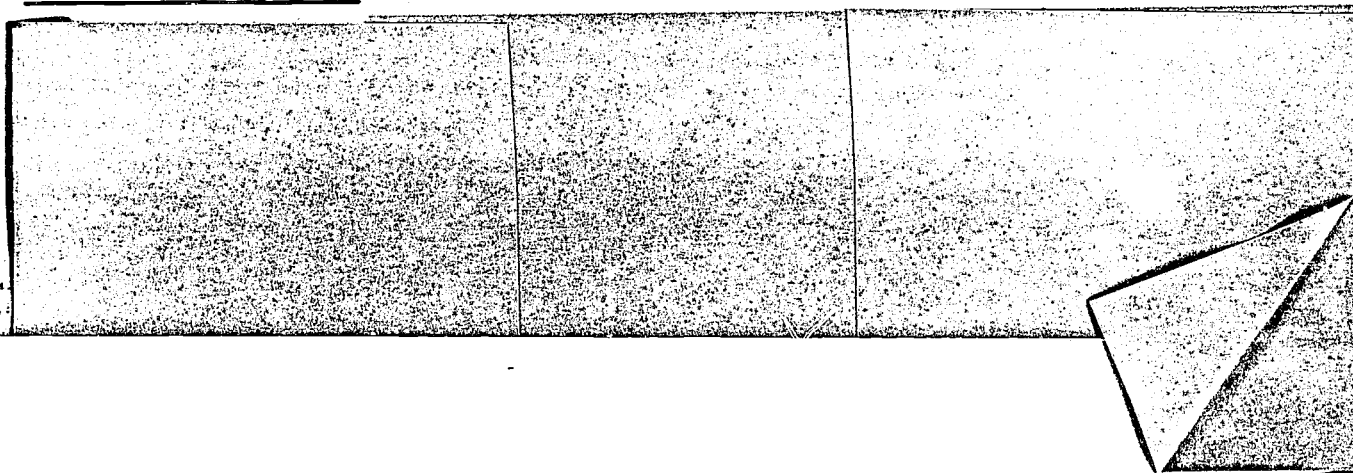
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Tulomajoki Power Plant

The State-controlled power company Imatran Voima concluded an agreement March 30 with Soviet authorities for construction of a power station for the Soviet Union on the Tulomajoki, a river in the Arctic region south of Murma. Imatran Voima is to be the prime contractor for this Fmk. 25 billion facility. The cost of Finnish labor, materials, and equipment to be used in connection with the project is estimated at Fmk. 19 billion. The main units for the 247,000 KW plant are to be supplied by the Soviet Union.

Regarding the current status of the project, a representative of Vesi-Pekka, which received a small loan under the Ruble credit last year for earthmoving equipment, said that his firm just completed the 105-mile access road from Finland to the project site. He added that the forest had been cleared and that other roads now are being built at the site itself, and that barracks for the Finnish workers are being installed. Construction work on the dam is expected to begin early in 1962.

Battle Act Shipments



Bloc Fairs

A Polish fair was held March 6-19 in Messuhalli (Exhibition Hall), Helsinki. The exhibition presented a drab collection of industrial and consumer goods, featuring machinery and equipment and vehicles. Attendance was very slim; although no official figures were released, it is unofficially estimated that 18,000 persons paid admission.

An East German trade fair is scheduled to open at Messuhalli November 17.

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